

FISCAL NOTE

SB 2600 - HB 2585

February 9, 2004

SUMMARY OF BILL: Requires nursing homes and state university student dorms to have sprinkler systems and one-hour rated fire doors by July 1, 2008. Excess funds from the Division of Health Related Boards, Department of Health and the Division of Regulatory Boards, Department of Commerce and Insurance, are to be used in the facilities deemed most in need by the State Fire Marshall.

ESTIMATED FISCAL IMPACT:

**Increase State Expenditures - \$11,271,000 FY05/Higher Education
\$11,271,000 FY06/Higher Education
\$11,271,000 FY07/Higher Education
\$479,100 FY07/TennCare**

Increase State Revenues - Exceeds \$100,000/FY05

Other Fiscal Impact:

**Increase Federal Expenditures - \$851,700 FY07/TennCare
Transfers \$15,451,800 from Department of Health and Department of
Commerce and Insurance - FY05**

For Information Purposes - FY05 and FY06 expenses represent the first and second year cost of construction at the University of Tennessee and the Tennessee Board of Regents. Total expense to higher education is \$45,083,900 and will be completed in four years. FY 2007 expenses include the third year higher education costs and the first year amortization of nursing home sprinkler systems reimbursed over 25 years and the first year amortization of the cost for fire doors reimbursed over 15 years. The total TennCare impact is \$24,149,300 (\$8,693,800 state and \$15,455,500 federal).

Estimate assumes:

- The bill will affect 83 nursing homes with approximately 2 million square feet of space without a sprinkler system. The requirement for one-hour fire doors will create a need for approximately 19,000 doors in nursing home rooms.
- The cost of installation of sprinkler systems is dependent on the type and size of the building and the current alarm system. Total cost also depends on the expense of hookup to a local water utility or to build a water storage system when local system pressure is inadequate.
- Estimated cost of implementing a sprinkler system for each facility is approximately \$7 per square foot in nursing homes. The total impact for sprinklers and fire doors to the nursing home industry is estimated at \$33,540,700.

- TennCare reimbursement will pay approximately 72% of all costs representing the share of Medicaid reimbursement in nursing homes. Planning and construction will take place in FY05 and FY06 and the cost impact to TennCare will occur in FY07. If some construction occurs in later years, the impact will decrease in the early years.
- According to the Comptroller of the Treasury, federal Medicaid rules currently require that capital costs be amortized over a 25-year period for sprinkler systems and 15 years for fire doors.
- Currently TennCare reimburses nursing homes subject to a maximum rate on facility expenditures. Approximately 50% of all nursing homes are above the cap and do not receive full reimbursement. TennCare will change the state plan to reimburse 100% of the capital costs required by this bill even for facilities above the cap. Such a change is subject to approval by the Center for Medicare and Medicaid Services.
- Reimbursement for nursing homes is based upon audited expenditures from the prior year. Reimbursement for the construction costs required by this bill will begin in FY07 based upon expenditures in FY05 and FY06.
- The Department of Health will collect fees for plan reviews. The amount cannot be determined but is estimated to exceed \$100,000. The Board for Licensing Health Care Facilities will be able to review the additional plans without additional resources due to the time frame of the mandate.
- The University of Tennessee system has approximately 2,855,000 square feet of residence halls without sprinklers and 2,000 doors that do not meet the one-hour standard. Construction costs will total \$21,897,700. UT currently plans to install sprinkler systems by 2008.
- The Tennessee Board of Regents has approximately 3,500,000 square feet of residence halls without sprinklers and 9,000 doors. Total construction costs are \$23,096,200. TBR is planning to install sprinklers on a 10-year cycle.
- Transfer of approximately \$13,270,000 from reserves in the Division of Health Related Boards and the Division of Regulatory Boards in FY05. The funds are to be distributed to either the TennCare Bureau, the University of Tennessee or the Tennessee Board of Regents depending upon decisions by the Department of Commerce and Insurance as to greatest need. Amounts of the transfer each year will depend on the amount of the reserves.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director